

Message Text

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SUBJECT: TECHNICAL DISCUSSIONS ON ISRAELI 1976 AID REQUEST

1. SECOND ROUND OF TECHNICAL TALKS WITH ISRAELIS HELD AUGUST 13-14 TO DISCUSS THE ECONOMIC VALIDITY OF THE ISRAELI REQUEST FOR MILITARY AND ECONOMIC AID IN FY 1976. TEAMS EXAMINED IN DETAIL THE ECONOMIC UNDERPINNINGS OF REQUEST BUT DID NOT EXAMINE THE CONTENT OF THE MILITARY REQUEST.

2. ON THE WHOLE, THE ISRAELIS SUCCEEDED IN JUSTIFYING MOST OF THEIR ECONOMIC ASSUMPTIONS AND FORECASTS. THE ISRAELIS ESTIMATE THAT, AT THE AID LEVELS REQUESTED, PERSONAL CONSUMPTION ON A PER CAPITA BASIS WILL REMAIN ESSENTIALLY CONSTANT FOR 1974 AND 1975, AND DECLINE BY 3 PERCENT IN CONFIDENTIAL

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1976. THIS WOULD REPRESENT SACRIFICE IN 1976 PERSONAL CONSUMPTION ABOUT COMPARABLE TO DECLINE IN U. S. PER CAPITA CONSUMPTION DURING PAST TWO YEARS. ISRAEL'S UNEMPLOYMENT IS PROJECTED TO INCREASE FROM 3 PERCENT IN 1975 TO

SIX PERCENT IN 1976. U. S. SIDE TOOK EXCEPTION TO ISRAELI PRESENTATION IN TWO AREAS, WITH WHICH THE ISRAELIS AGREED ONLY IN PART. THESE WERE:

A. WE CONSIDER ISRAELI NEEDS TO BE OVERESTIMATED BY ABOUT 200 MILLION DOLLARS IN FY 1976 BECAUSE OF MANNER IN WHICH SINAI OIL TRANSACTIONS ARE TREATED IN THE ISRAELI PAPER. (FROM OUR TALKS, WE BELIEVE THE ISRAELIS WOULD AGREE TO ABOUT 135 MILLION DOLLARS OF THIS DIFFERENTIAL.)

B. WE ESTIMATE THAT ISRAEL BOND SALES AND CONTRIBUTIONS FROM ABROAD WOULD BE ABOUT 100 MILLION DOLS HIGHER IN FY 1976 THAN FORECAST IN THE ISRAELI PAPER. (THE ISRAELIS DO NOT CONCUR ON THIS POINT.)

C. IN ADDITION, SOME MEMBERS OF U. S. TEAM BELIEVE THERE IS ADDITIONAL FLEXIBILITY OF 100-200 MILLION DOLS IN ISRAEL'S FACILITY TO INCREASE COMMERCIAL BORROWING OR TO MARGINALLY DRAW DOWN FOREIGN EXCHANGE RESERVES. ALSO, THAT CIVILIAN IMPORTS COULD BE REDUCED BY 100-200 MILLION DOLS BELOW BLUE PAPER PROJECTIONS WITHOUT DISRUPTING ISRAELI ECONOMY.

3. BASED UPON THE 2.5 BILLION DOLLARS LEVEL FOR CY 1976 MILITARY IMPORTS INCLUDED THE JANUARY 1975 ISRAELI BLUE PAPER REQUEST, WHICH WAS BASIS FOR ISRAELI AID REQUEST OF 2.5 BILLION DOLS FOR FY 1976, WE WOULD CALCULATE 300-600 MILLION DOLS REDUCTION IS POSSIBLE IN THIS ORIGINAL BLUE PAPER PROJECTION OF ISRAEL'S BOP NEEDS FOR CY 1976.

4. WHILE WE DID NOT GO INTO MILITARY REQUEST DIRECTLY, ISRAELI TEAM TOUCHED UPON MILITARY SIDE INDIRECTLY IN EXPLAINING MACRO-ECONOMIC PROJECTIONS:

A. THEY EXPLAINED INCREASE IN MILITARY IMPORT FIGURE FOR
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1976 FROM 2.5 BILLION DOLS IN THEIR ORIGINAL JANUARY REQUEST TO 2.7 BILLION DOLS IN THE AUGUST REVISION ON THE GROUND THAT PROCUREMENT IN CALENDAR YEAR 1975 IS BEHIND SCHEDULE AND SOME PORTION OF IT WILL SLIP INTO 1976.

B. IN ADDITION, THEY ESTIMATED THAT MILITARY PROCUREMENT COSTS IN 1976 WILL INCREASE DUE TO INFLATION BY AT LEAST 400 MILLION DOLS ABOVE THIS 2.7 BILLION DOLS FIGURE (I.E. A TOTAL OF 3.1 BILLION DOLS FOR MILITARY IMPORTS ALONE.)

5. SUBJECT OF SINAI OIL DISCUSSED AT SOME LENGTH. AS YOU KNOW, ISRAELIS ESTIMATE THAT THEIR FOREIGN EXCHANGE RE-

QUIREMENTS WOULD INCREASE BY 350 MILLION DOLLARS FOR 1976 AS FIRST YEAR REPLACEMENT COST IF THEY GIVE UP ABU RODEIS OIL FIELDS. FIGURE OF 350 MILLION DOLLARS IS BASED ON THEORETICAL PROCUREMENT COST OF 4.4 MILLION TONS OF CRUDE FROM MEXICO, INCLUDING TRANSPORTATION COSTS, LESS FOREIGN EXCHANGE COSTS OF PRODUCING ABU RODEIS OIL. AFTER GOING OVER THE DATA WITH ISRAELIS IN SOME DETAIL, WE BELIEVE THAT THIS CALCULATION IS APPROXIMATELY CORRECT, ALTHOUGH IT MAY BE ABOUT 50 MILLION DOLLARS ON THE HIGH SIDE.

6. AT NO POINT DID THE ISRAELIS OFFICIALLY INCREASE THEIR FY 1976 AID REQUEST ABOVE THE ORIGINAL 2.5 BILLION DOLS ALTHOUGH THEY IMPLIED THAT GIVING UP SINAI OIL AND THE OTHER FACTORS MENTIONED ABOVE COULD BE THE BASIS FOR AN INCREASED REQUEST, AND THEY MAY USE THESE EXTRAS AS UNDERPINNINGS TO STRENGTHEN THE 2.5 BILLION DOLLARS REQUEST OR THEY COULD CONSIDER THEM AS ADD-ONS FOR AN EXPANDED REQUEST. THIS WILL BE CLARIFIED AS NEGOTIATIONS PROCEED ON TOTAL FRONT.

7. ISRAELI DELEGATION WAS INFORMED THAT VARIOUS ALTERNATIVES EXIST FOR TRANSLATING TOTAL CY 1976 AID TO ISRAEL INTO FY 1976, INTERIM QUARTER 1976 AND FIRST QUARTER FY 1977 CONGRESSIONAL AUTHORIZATION LEVELS.

8. IN COURSE OF DISCUSSIONS, ISRAELI TEAM PROMISED TO SUPPLY ADDITIONAL OR UPDATED INFORMATION ON: EXPORTS, IMPORTS, EXTERNAL DEBT MATURITIES/COMPOSITION, INTEREST
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PAYMENTS/COMPOSITION, COMMERCIAL BORROWING/COMPOSITION, PRIVATE AND PUBLIC CONSUMPTION FIGURES AND PROJECTIONS, ISRAELI STUDY RELATING DECREMENTS IN CIVILIAN IMPORT LEVELS TO INCOME, CONSUMPTION AND EMPLOYMENT LEVELS, AND ANNEX ONE INTERGOVERNMENTAL TRANSFER ITEM FOR 1974. FULLER DETAILS ON MEETINGS BEING PREPARED AND WILL BE POUCHED.

9. DEPARTMENT WOULD APPRECIATE MISSION COMMENTS ON ABOVE. ALSO, WE WISH TO BE KEPT INFORMED OF FUTURE DEVELOPMENTS RE ISRAEL'S BOP SITUATION, PARTICULARLY WITH RESPECT TO FLUCTUATIONS IN BOND SALES/UNILATERAL TRANSFERS, COMMERCIAL BORROWING AND RESERVE LEVEL. SISCO

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